

G-011/M-91-485 ORDER DENYING PETITION TO CONSOLIDATE GAS COSTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
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Chair
Commissioner
Commissioner
Commissioner

In the Matter of Peoples Natural
Gas Company's Petition to
Consolidate Gas Supply Costs

ISSUE DATE: February 11, 1992

DOCKET NO. G-011/M-91-485

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PROCEDURAL HISTORY

On July 1, 1991 Peoples Natural Gas Company (Peoples or the Company) filed a petition to change its method of calculating the gas supply costs it charges ratepayers. Historically, the Company has determined gas supply costs separately for each of the three pipelines it uses to serve ratepayers. In the July 1 filing, the Company proposed to consolidate its system-wide gas supply costs and stop charging different rates to customers served by different pipelines. The Company stated it had begun using interconnections between pipelines to ensure adequate firm supplies for all customers and therefore rate differentials by pipeline no longer reflected actual costs.

On October 31, 1991 the Department of Public Service (the Department) filed comments opposing consolidation. The Department stated the Company had not shown that the interconnections it was using resulted in a fully integrated distribution system and had not provided adequate cost information to demonstrate that cost differentials by pipeline had disappeared.

The Department also believed a rate design change of this magnitude should be approved only after a general rate case or other contested case proceeding, with notice to all affected customers. Finally, the Department noted that all three pipelines have rate cases pending before the Federal Energy Regulatory Commission (FERC) and that FERC itself is engaged in a major rulemaking that may change the way interstate pipelines do business. The Department believed these proceedings could affect Peoples' gas costs and purchasing practices in ways which would affect the reasonableness of consolidating the gas costs of all three pipelines.

The matter came before the Commission on January 28, 1992.

FINDINGS AND CONCLUSIONS

The Commission agrees with the Department that the Company's proposal involves a significant and permanent rate design change which should not be made without prior notice to all customers and full factual development. Consolidating gas supply costs would have lasting and far-reaching effects on all Peoples customers. The rates of all customers would change, some upward and some downward. In the absence of special circumstances, rate changes this comprehensive should be approved only in a general rate case or similar proceeding.

This case does not present special circumstances justifying a departure from the general rule. The factual material filed by the Company does not demonstrate that the Company now operates its distribution system as one integrated whole, freely moving gas from all suppliers to all customers without regard to which pipeline is closest to a particular customer. At best, the Company has shown that it has physical interconnections and contract arrangements in place allowing it to transfer gas from one pipeline to another when necessary. It is not clear that these mechanisms can or do operate on a routine basis. It is not clear that these mechanisms are the best solution to the capacity constraints the Company reports it is facing. In short, the Company has not made the substantial factual showing necessary to justify this rate design change.

To consider further the proposed rate design change, the Commission would need the following sorts of information: an embedded class cost of service study showing the extent to which gas supply costs vary by pipeline; parallel records showing what the Company's consolidated and unconsolidated gas costs would be for customers served by each of the three pipelines, an explanation of how the Company monitors gas supplies from each supplier through each pipeline, a description of the capacity limits of the interconnections between the pipelines, and a description of the Company's contingency plans to deal with the failure of any of its suppliers to deliver gas.

A general rate case is the ideal vehicle for considering changes to rate design, and the Company may well choose to include this consolidation proposal in its upcoming general rate case. In any case, any future filing to consolidate gas supply costs should be accompanied by the same kind of notice the Company gives when it files a general rate case.

ORDER

1. Peoples' petition to consolidate its Minnesota gas supply costs is denied.
2. Any future Peoples' filing to consolidate its gas supply costs shall be subject to the same notice requirements as a general rate case and shall include the information discussed in the text of this Order.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)